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RUEHFR/AMEMBASSY PARIS PRIORITY 1611  
RUEHRH/AMEMBASSY RIYADH PRIORITY 6833  
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C O N F I D E N T I A L SECTION 01 OF 03 JEDDAH 000614

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TAGS: [PGOV](#) [PREL](#) [BTIO](#) [EAIR](#) [ECON](#) [KISL](#) [KPRV](#) [SA](#)  
SUBJECT: AMBASSADOR BRIEFED ON SAUDIA FUTURE

REF: A. A) JEDDAH 244  
[1](#)B. B) JEDDAH 452

Classified By: Ambassador James C. Oberwetter  
for reasons 1.4 (b) and (d).

[1](#)1. (C) SUMMARY: On September 10, the Ambassador and Consulate General Jeddah, and FCS staff met the New Director General of Saudi Arabian Airlines (Saudia) and his senior staff. The Director General offered an optimistic assessment of the airline's future. Privatization is planned over the next two or three years. A number of non-core activities will be developed into separate businesses. The fleet will be modernized. The management staff were favorable towards Boeing, but guarded in discussing future purchases. The managers expressed concern that the manufacturer would have to provide logistical support and suggested that Embassy assurances that airline staff could travel for training and administration in support of a purchase would be important considerations. The Saudi government is making major investments in infrastructure, including aviation and airports, in the Hejaz. END SUMMARY.

PROMISING FUTURE FOR SAUDIA

[1](#)2. (C) On September 10 the Ambassador met with the new Director General of Saudia, Khalid Molhem, and his senior operations staff. Also present were Riyadh FCS Counselor and Jeddah Pol/Econ Chief. Molhem gave the Ambassador an optimistic picture of the airline's future. He noted that in the two weeks ending on September 5, Saudia carried 348,000 passengers on 1,200 international flights. Saudia officials said that the airline could fill 15 to 20 flights from the Kingdom to Egypt every day. These figures did not include their domestic flights which are usually filled to capacity.

FUTURE TIED TO ECONOMY AND PILGRIMS

[1](#)3. (C) Unlike other airlines in the Gulf region that strive to increase transit passengers, Saudia management is pursuing a stable, long-term market aimed at passengers coming to the Kingdom, rather than passing through to elsewhere. This strategy depends in part on continued economic growth in Saudi Arabia attracting business from throughout the world. Another element of this strategy is pursuit of the uniquely Muslim pilgrimage traveler. Haj dominates passenger travel in Saudi Arabia, attracting some

3 million travelers every year, the majority of whom travel on Saudia. This traffic is limited by quotas set by the Saudi Arabian government and cannot increase appreciably in the near future. However, umrah, or the little pilgrimage, which can be conducted anytime during the year, is a rapidly growing market. Currently umrah brings 8-10 million visitors to the Kingdom, and Molhem speculated that it could easily increase to 20 million passengers per year.

#### COMPETITION WELCOMED

14. (C) Saudia management insisted it is not afraid of competition in the heretofore closed Saudi Arabian aviation sector. In fact, they count on competition to increase passenger numbers. Currently, fares are high and the millions of expatriate and budget travelers in Saudi Arabia travel only occasionally. They theorize that cheaper fares would encourage more frequent travel by these customers.

#### SELECTIVE SECURITY REQUIREMENTS

15. (C) The Ambassador, relating his own experience the previous day boarding a Saudia flight from Nairobi to Jeddah, said he had never gone through such a stringent security screening. The Director General responded that on flights to and from certain destinations, Beirut and Nairobi notable among them, the Ministry of Interior issues special security directives and supplies specially trained security agents, although they wear Saudia uniforms, to inspect passengers and baggage.

#### PRIVATIZATION PREPARATIONS

JEDDAH 00000614 002 OF 003

16. (C) Molhem was optimistic that full privatization of Saudia can be effected in the course of the next two or three years. The airline is presently involved in an aggressive campaign to cut its costs. It is divesting itself of its catering operations, which are seen as an attractive investment. They have received 48 inquiries, including 10 substantial offers from European concerns.

17. (C) The airline is also preparing to spin-off its training facilities. In a candid statement, the Director General stated that he would like to see interest from U.S. concerns in this portion of the operations. They are also preparing to divest the maintenance facility which would remove more than 5,000 people from their work force. Maintenance accounts for some SR 5 billion in revenue. Ground handling services, which are expected to be a lucrative activity as more airlines begin operating to and within Saudi Arabia will also be made into a separate company. The cargo operations will also be separated, leaving the airline to its primary mission--flight services.

#### NEW FLEET - BOEING?

18. (C) Saudia anticipates spending over USD 12 billion on new aircraft over the next few years. Prominent on the coffee table around which the Ambassador and Saudia officials held their discussions was a model of the new Airbus A-380. However, the Ambassador and FCS Counselor aggressively advocated for Boeing. The airline staff are well-disposed towards Boeing products, but cautioned that Boeing must accommodate their logistical needs.

#### CONSULATE WILL TRY TO ACCOMMODATE SAUDIA

19. (C) The airline managers also suggested the ability for their staff to travel to the United States would be a major factor in their purchase decision. The Director of Flight Operations noted that obtaining a visa in Riyadh could result in air crew members being unavailable for as many as four days, a serious problem considering the stringent

regulations that govern air crew activities. (Note: Saudia currently employs 1,200 cockpit crew and 4,200 cabin crew among its approximately 24,000 employees. End note.)

¶10. (C) Although the airline trains crews in France, Helsinki, and the Emirates, many of these air crew members, as well as hundreds of other staff, would have to travel to the U.S. for training if new aircraft are purchased. Consequently, they asked if the Embassy could assure them that their staff could travel when necessary for training and administration connected with any major purchases. The Ambassador suggested that the Embassy would explore options such as those employed by ARAMCO and a few other major companies to facilitate visa issuance.

#### AIRPORT MANAGEMENT

¶11. (C) Airport management in Saudi Arabia is under the administration of the General Authority of Civil Aviation (GACA). Saudia management has had intensive discussions with them, because airport improvements are vital to their future success. As currently configured, Jeddah's King Abdul Aziz Airport is not suitable to act as an international hub, and the airline is anxious that future improvements and new airports constructed in the Kingdom are compatible with its future operations.

¶12. (C) However, potential developments are especially promising for western Saudia Arabia. Mecca recently became an international airport. Molhem predicted that Taif and Tabuk would follow suit. He thought that Saudi Arabia could have as many as seven or eight international airports in the next decade.

#### MAJOR INFRASTRUCTURE DEVELOPMENT IN THE WEST

¶13. (C) The Ambassador was impressed to learn that USD 30 billion is being committed to economic development projects in the Hejaz, including redevelopment of King Abdul Aziz Airport in Jeddah, planning for an entirely new airport

JEDDAH 00000614 003 OF 003

that could accommodate an international airport hub operation by Saudia and upgrading other airports. Added to the funds earmarked for new aircraft, and the development projects, such as King Abdullah Economic City, infrastructure investment in western Saudi Arabia may well equal or exceed the 50 billion investment in ARAMCO in the Eastern Province.

TONEY